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U.S. BANKRUPTCY COURT  
NORTHERN DISTRICT OF CALIFORNIA

7 Attorneys for Palm Terrace Claimants

## 8 UNITED STATES BANKRUPTCY COURT

## 9 DISTRICT OF NEVADA

10  
 11 In re:  
 12 USA COMMERCIAL MORTGAGE  
 13 COMPANY,  
 14 USA CAPITAL REALTY ADVISORS,  
 15 LLC,  
 16 USA CAPITAL DIVERSIFIED TRUST  
 17 DEED FUND, LLC,  
 18 USA CAPITAL FIRST TRUST DEED  
 19 FUND, LLC,  
 20 USA SECURITIES, LLC,  
 21  
 22 Debtors.

Case No. BK-S-06-10725-LBR  
 Case No. BK-S-06-10726-LBR  
 Case No. BK-S-06-10727-LBR  
 Case No. BK-S-06-10728-LBR  
 Case No. BK-S-06-10729-LBR

## CHAPTER 11

Jointly Administered Under Case No.  
 BK-S-06-10725-LBR

**RESPONSE TO FOURTH OMNIBUS  
 OBJECTION OF USACM TRUST TO  
 PROOFS OF CLAIM BASED ON PALM  
 TERRACE LITIGATION**

Date: February 20, 2009

Time: 9:30 a.m.

Courtroom 1

Honorable Linda B. Riegle

22 Affects:

23 All Debtors  
 24 X USA Commercial Mortgage Company  
 25 USA Capital Realty Advisors, LLC  
 26 USA Capital Diversified Trust Deed Fund, LLC  
 27 USA Capital First Deed Fund, LLC  
 28 USA Securities, LLC

26 The Palm Terrace Claimants (as defined in the Fourth Omnibus Objection of USACM  
 27 Trust to Proofs of Claim Based Upon Palm Terrace Litigation) hereby respond to the USACM  
 28 Liquidating Trust's Fourth Omnibus Objection of USACM Trust to Proofs of Claim Based Upon

1 Palm Terrace Litigation as follows:

2 **MEMORANDUM OF POINTS AND AUTHORITIES**

3 **I. BACKGROUND**

4 1. On or about February 1, 2006, sixteen investors (the "Palm Terrace Plaintiffs") in an  
 5 apartment complex known as the Palm Terrace Apartments in Las Vegas, Nevada filed an action  
 6 in the Santa Clara County Superior Court (the "Palm Terrace Litigation") against the seller of the  
 7 apartments and several other individuals and businesses involved in the sale. The Palm Terrace  
 8 Plaintiffs' Complaint alleged causes of action for fraud, negligent misrepresentation, breach of  
 9 fiduciary duty, unfair competition, false advertising, negligence, conspiracy, and aiding and  
 10 abetting. At the heart of the Palm Terrace Plaintiffs' causes of action was the allegation that they  
 11 and their lender, LaSalle Bank, had been provided false information, in the form of rent rolls for  
 12 the apartments, regarding the apartment complex's financial situation.

13 2. Among the defendants in the Palm Terrace Litigation were USA Commercial Mortgage  
 14 Company ("USACM") and Andrew Hantges ("Hantges"), who held himself out as a Vice  
 15 President of USACM. (*See* the Declaration of Jonathan A. McMahon filed concurrently herewith  
 16 (the "McMahon Decl.") at ¶ 11). Hantges represented the Palm Terrace Plaintiffs as their  
 17 mortgage broker in the transaction to purchase the apartment complex. (*See* McMahon Decl. ¶ 5).  
 18 In his haste to close the deal, Hantges submitted false information in the form of rent rolls and  
 19 other financial documents, which he signed, to the Palm Terrace Plaintiff's lender. (*See*  
 20 McMahon Decl. ¶¶ 7-10). This false information, which overstated the amount of rental income  
 21 the apartments would generate, allowed the Palm Terrace Plaintiffs to obtain their loans and close  
 22 escrow on the complex.

23 3. On November 6, 2006, the Palm Terrace Claimants (as defined in the Fourth Omnibus  
 24 Objection of USACM Trust to Proofs of Claim Based Upon Palm Terrace Litigation) filed their  
 25 claims against USACM, alleging that their liability, if any, in the Palm Terrace Litigation arose  
 26 due to the actions of Andrew Hantges, acting on behalf of USACM as the mortgage broker for the  
 27 Palm Terrace Plaintiffs.

28 4. In or around November 2008, the parties to the Palm Terrace Litigation, with the

1 exception of USACM, entered into a confidential settlement agreement and the Palm Terrace  
 2 Litigation was dismissed.

3       5. At least a portion of the confidential settlement was funded by one or more of the Palm  
 4 Terrace Claimants' insurance carriers. The Palm Terrace Claimants, however, did incur  
 5 \$184,965.74 in legal fees arising out of the Palm Terrace Litigation that was not funded by any  
 6 insurance carrier. (See McMahon Decl. ¶¶ 2, 3).

7       6. On January 16, 2009 the USACM Trust filed its Notice of Hearing and First, Second,  
 8 Third, and Fourth Omnibus Objections USACM Trust to Proofs of Claim Based Upon Palm  
 9 Terrace Litigation.

10       7. The USACM Trust's Notice of Hearing states that, pursuant to Local Rule 2007(b),  
 11 this response must be filed by February 13, 2009.

12       **II. RESPONSE TO OBJECTIONS**

13       a. **Claims Are Not Duplicative.**

14       8. At the time the Palm Terrace Claimants filed their individual proofs of claim, the Palm  
 15 Terrace Litigation was ongoing and the Palm Terrace Claimants could only estimate each of their  
 16 individual liability arising out of the litigation. Thus, each Palm Terrace Claimant filed an  
 17 individual claim.

18       9. As a result of the confidential settlement of the Palm Terrace Litigation, the Palm  
 19 Terrace Claimants now know the amount of their liability arising out of the litigation. Of the  
 20 settlement funds, costs, and attorney's fees incurred in defending the Palm Terrace Litigation,  
 21 \$184,965.74 were not paid by any insurance carrier. Palm Terrace Claimant WOW Enterprises,  
 22 Inc. (Claim # 10725-00918) incurred \$184,965.74 in legal fees arising out of the joint defense of  
 23 the Palm Terrace Litigation and the remaining Palm Terrace Claimants have assigned their claims  
 24 in these proceedings to claimant WOW Enterprises, Inc. (See McMahon Decl. ¶¶ 2, 3).

25       10. USACM Trust is correct in that the claims originally filed by the Palm Terrace  
 26 Claimants do not accurately state the amount of their claims as of this date. WOW Enterprises,  
 27 Inc.'s claim (Claim # 10725-00918), however, remains valid in the amount of \$184,965.74. (See  
 28 McMahon Decl. ¶¶ 2, 3).

1                   **b. The Palm Terrace Claimants Have Standing.**

2                   11. At least a portion of the confidential settlement of the Palm Terrace Litigation was  
 3 funded by one or more of the Palm Terrace Claimants' insurance carriers. The Palm Terrace  
 4 Claimants, however, did incur \$184,965.74 in legal fees arising out of the Palm Terrace Litigation  
 5 that was not funded by any insurance carrier. This amount has been charged to Claimant WOW  
 6 Enterprises, Inc. (Claim # 10725-00918) and the remaining Palm Terrace Claimants have  
 7 assigned their claims in these proceedings to WOW Enterprises, Inc. (See McMahon Decl. ¶¶ 2,  
 8 3).

9                   12. The Palm Terrace Claimants, therefore, have been damaged in the amount of  
 10 \$184,965.14 and consequently have standing to bring their actions against USACM.

11                   **c. The Palm Terrace Claimants Do Not Come With Unclean Hands**

12                   13. A proof of claim is presumed valid under Bankruptcy Rule 3001(f). "[A] proof of  
 13 claim is *prima facie* evidence of the validity of the claim. Although the creditor bears the  
 14 ultimate burden of persuasion, **the debtor must come forward with evidence to rebut the**  
 15 **presumption of validity.**" *In re Southern Calif. Plastics, Inc.* 165 F.3d 1243, 1248 (9th Cir.  
 16 1999) (emphasis added). In its Fourth Omnibus Objection, the USCAM Trust has offered no  
 17 evidence that any of the Palm Terrace Claimants were complicit in, or had knowledge of, the  
 18 fraud perpetrated by Hantges on the Palm Terrace Plaintiffs. The USCAM Trust, therefore, has  
 19 not presented sufficient evidence to rebut the presumption of validity of the Palm Terrace  
 20 Claimants' claims.

21                   14. Evidence discovered during the Palm Terrace Litigation shows that Hantges filled out  
 22 and signed falsified Multifamily Rent Rolls, Income and Expense Statements, and Collateral  
 23 Information Questionnaires. (See McMahon Decl. ¶¶ 7-10). These were forms provided to  
 24 Hantges by the Palm Terrace Plaintiffs' lender, LaSalle Bank, and submitted by Hantges to the  
 25 lender in order to secure the loans to purchase the apartments. (*Id.*) Any fraud that was  
 26 committed during the transaction to purchase the Palm Terrace Apartments was perpetrated by  
 27 Hantges, acting in his capacity as a mortgage broker for USACM. The Palm Terrace Claimants  
 28 do not come with unclean hands. The Palm Terrace Claimants, therefore, are entitled to

1 indemnification and contribution from USACM in the amount of \$184,965.74.

2 **d. The Doctrine of Respondeat Superior Applies**

3 15. At all times during the transaction to purchase the Palm Terrace Apartments, Hantges  
 4 held himself out to be acting on behalf of USACM. Evidence obtained during discovery in the  
 5 Palm Terrace Litigation shows that Hantges sent emails to the various parties from the email  
 6 address [ahantges@usacapitalcorp.com](mailto:ahantges@usacapitalcorp.com). (See McMahon Decl. ¶ 8). The signature block on  
 7 Hantges' emails identified him as "Andrew Hantges, CCIM, USA Commercial Mortgage." (Id.)  
 8 Hantges also sent the Palm Terrace Plaintiffs Letters of Interest on USA Commercial Mortgage  
 9 letterhead which identified him as "Vice President, USA Commercial Mortgage." (See McMahon  
 10 Decl. ¶ 11) No argument can be made that Hantges was not acting within the course and scope of  
 11 his duties at USACM.

12 16. Furthermore, Debtor has provided no evidence that Hantges was not acting in the  
 13 scope and course of his employment with USACM. A proof of claim is presumed valid and, in  
 14 an objection, the debtor must come forward with evidence to rebut the presumption of validity.  
 15 *In re Southern Calif. Plastics, Inc.* 165 F.3d 1243, 1248 (9th Cir. 1999). USACM has not  
 16 presented any evidence that the doctrine of respondeat superior does not apply.

17 **e. The Palm Terrace Claimants Are Not *In Pari Delicto***

18 17. See Paragraphs 13 and 14 above.

19 **f. The Palm Terrace Claimants Did Not Fail to Mitigate Their Damages.**

20 18. See Paragraphs 8 through 10 above.

21 19. In addition, the USACM Trust has provided no evidence that the Palm Terrace  
 22 Claimants failed to mitigate their damages, despite its obligation to do so. See *In re Southern*  
 23 *Calif. Plastics, Inc.* 165 F.3d 1243, 1248 (9th Cir. 1999)

24 **III. CONCLUSION**

25 For the forgoing reasons, the Palm Terrace Claimants respectfully ask the Court to  
 26 overrule the USACM Trust's objections to the claims arising out of the Palm Terrace Litigation  
 27 and allow such claims in the amount of \$184,965.74.

28 //

1 Dated: February 11, 2009

TINGLEY PIONTKOWSKI LLP

2 By: 

3 JONATHAN A. MCMAHON  
4 Attorneys for Palm Terrace Claimants

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